TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Report of the Chief Investment Officer | ITEM NUMBER: 12

ATTACHMENT(S): 3

ACTION: ____ | DATE OF MEETING: November 8, 2000

INFORMATION: X | PRESENTER(S): Christopher J. Ailman

In addition to the review of the investment portfolio, I will also provide a brief overview and financial history of the member Home Loan Program as requested by the State Controller.

The following is a brief summary of the developments that have occurred in the financial markets between September 30 to October 20, 2000. This is intended to provide a short overview of the activity that has occurred between the date of the attached report and the mailing date of the packet. The CIO will provide a further verbal update at the meeting.

1. **Interest rates**:
   The Federal Funds rate held steady trading around 6.50%.
   The yield on the 10-year U.S. Treasury Note has declined from 5.80% to 5.64%. The yield on the 30-year U.S. Treasury Bond declined from 5.88% to 5.73%.
2. **U.S. Equity market**:
   The S&P 500 Index has decreased from 1436.51 to 1396.93. Fiscal year to date the S&P 500 index is down –3.64% and the Russell 3000 index is down –2.91%.
3. **Non-U.S. Equity market**:
   The MSCI All Country World free index ex. U.S. (ACWI free ex. U.S.) has declined 203.1 to 191.6 as of October 19, 2000. The index has decreased by –13.66% fiscal year to date.
4. **Currencies**:
   The U.S. dollar has continued to strengthen against the Euro (.88 to .84) and was unchanged vs. the Yen (1.08 to 1.08) and was slightly weaker compared the pound sterling (1.47 to 1.45).
5. **Commodities**:
   Crude oil prices were very volatile with the crisis in the Middle East prices rose from \$29.92 a barrel, to a mid period high of over \$35, and closed the period at \$31.30 over the period.

California State Teachers' Retirement System
Investment Summary
For the Period ended September 30, 2000

Investment Summary - Market Value *(amounts in millions)*

Asset	This Month		One Year Ago		Three Years Ago		Five Years Ago	
Domestic Equity	$ 46,316	41.5%	$ 42,140	43.1%	$ 30,073	38.1%	$ 18,573	31.9%
International Equity	26,265	23.6%	24,655	25.2%	16,240	20.6%	7,099	12.2%
Fixed Income	28,171	25.3%	24,876	25.4%	25,876	32.8%	24,057	41.3%
Global Asset Allocators	N/A	N/A	N/A	N/A	2,367	3.0%	2,112	3.6%
Private Equity	9,370	8.4%	5,238	5.4%	3,499	4.4%	2,261	3.9%
Liquidity	1,373	1.2%	886	0.9%	809	1.0%	4,145	7.1%
Total Market Value	$ 111,495	100.0%	$ 97,795	100.0%	$ 78,864	100.0%	$ 58,247	100.0%

Performance Returns for Major Asset Categories

Asset	Month	Fiscal YTD	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity	-4.91	0.28	18.27	15.55	20.09	19.11
Int'l Equity	-5.33	-8.32	5.67	7.69	9.62	N/A
Fixed Income	0.25	3.09	7.09	6.18	6.83	9.11
Real Estate	N/A	N/A	11.13	17.20	14.53	6.43
Alternative Investments	N/A	N/A	56.18	37.56	36.06	23.22
Liquidity	0.57	1.70	6.58	6.22	6.06	5.76
Total Fund	-3.35	-1.00	13.42	12.05	13.40	13.21
Indicies						
Domestic Equity Custom *	-4.56	0.71	18.15	16.02	20.86	19.49
MSCI AC ex US *	-5.52	-8.13	4.94	6.74	8.45	9.84
Salomon LPF	0.25	3.21	7.24	5.92	6.69	9.01
Real Estate Custom	N/A	N/A	11.23	13.16	11.58	6.07
T-Bill	0.50	1.49	5.62	5.15	5.20	4.88
Consumer Price Index	0.52	0.75	3.45	2.53	2.53	2.73
Wilshire 5000	-4.60	0.24	17.55	15.51	20.40	19.26
Russell 3000 *	-4.56	0.71	18.15	16.02	20.85	19.55
MSCI EAFE *	-4.89	-8.09	3.16	7.38	8.57	9.63
LB Gov / Corp	0.38	2.87	6.72	5.81	6.29	8.08

Allocations of Cash and Reallocations of Assets
(does not include changes in the market value)

	Current Month	Past 12 Months
Cash Inflow:		
Contributions & misc receipts	$ 142.5	$ 4,119.9
Less: Benefits & misc. payments	$ (596.2)	$ (4,116.3)
Investment Income	$ 238.9	$ 2,986.8
Total Cash Inflow	$ (214.8)	$ 2,990.4
Cash Allocation:		
Domestic Equity	$ (120.8)	$ (2,853.5)
International Equity	$ 145.3	$ 204.1
Fixed Income	$ 23.9	$ 3,207.5
Private Equity	$ 152.9	$ 2,039.4
Liquidity	$ (416.1)	$ 392.9
Total Cash Allocation	$ (214.8)	$ 2,990.4

* Indicies reflect ex Tobacco returns beginning 9/1/2000

Asset Allocation Percentage

Assets	Actual	Target	Difference	Range
Public Equity	63.1%	63.0%	0.1%	57 - 69
Public Fixed Income	26.5%	27.0%	(0.5%)	23 - 32
Private Equity	10.4%	10.0%	0.4%	8 - 12
Total Investment Assets	100.0%	100.0%		

Which can be compared to the strategic targets .....

Assets	Actual	Target	Difference	Range
Active - Domestic Equity	8.8%	7.6%	1.2%	6 - 9
Passive - Domestic Equity	32.8%	30.4%	2.4%	29 - 41
Allocated Not Funded	-2.0%	0.0%	(2.0%)	
TOTAL DOMESTIC EQUITY	*39.6%*	*38.0%*	*1.6%*	*35 - 41*
Active - International Equity	10.9%	12.5%	(1.6%)	11 - 14
Passive -International Equity	12.6%	12.5%	0.1%	11 - 14
TOTAL NON-US EQUITY	*23.6%*	*25.0%*	*(1.4%)*	*22 - 28*
TOTAL PUBLIC EQUITY	***63.1%***	***63.0%***	***0.1%***	***57 - 69***
Real Estate	*3.7%*	*5.0%*	(1.3%)	
Alternative Investments	*4.7%*	*5.0%*	(0.3%)	
Allocated Not Funded	2.0%	0.0%	2.0%	
TOTAL PRIVATE EQUITY	***10.4%***	***10.0%***	***0.4%***	***8 - 12***
Domestic Fixed Income	25.3%	26.0%	(0.7%)	23 - 29
Liquidity	1.2%	1.0%	0.2%	0 - 3
TOTAL FIXED & LIQUIDITY	***26.5%***	***27.0%***	***(0.5%)***	***23 - 32***
TOTAL INVESTMENT ASSETS	100.0%	100.0%		

California State Teachers' Retirement System

Off Balance Sheet Transactions

For the period ended September 30, 2000

Currency Hedging - Market Value (amounts in millions)						
Managers	**Pacific Basin**		**European**		**Total**	
Active International	$3,830.51	1.6%	$ 7,297.26	0.1%	$11,127.78	0.6%
Passive International	$3,965.44	31.5%	$ 8,371.14	0.0%	$12,336.57	10.1%

** Does not include emerging market securities, Canadian stocks, cash or accruals.*

Currency Realized Gains/(Losses) (amounts in millions)			
	Currency Realized Gains/(Losses)		
Managers	**1 Month**	**1 Year**	**Since Inception**
Active International	$0.13	($10.12)	$76.46
Passive International	$7.38	($11.36)	$424.10

Securities Lending Income			
Asset	**Current Fiscal Year 7/00-9/00**	**vs.**	**Prior Fiscal Year 7/99-9/99**
Domestic Equity	$2,734,799		$2,590,508
International Equity	$5,992,342		$5,930,098
US Treasury	$3,633,652		$3,244,448
Other Fixed Income Securities	$105,286		$157,113
Total Income	$12,466,079		$11,922,167

Securities Lending (On-Loan/Collateral Summary)			
Asset	**Securities On-Loan**	**Collateral Valuation**	**Percent**
Domestic Equity	$2,668,634,173	$2,775,216,788	104%
International Equity	$5,148,524,623	$5,415,056,482	105%
US Treasury	$7,713,085,640	$7,870,890,791	102%
Other Fixed Income Securities	$196,652,973	$201,353,293	102%
Total Value	$15,726,897,410	$16,262,517,354	103%

California State Teachers' Retirement System

Monthly Investment Summary

	Market Value 08/31/2000	Market %	Market Value 09/30/2000	Market %	Market Value Difference	% Diff.
Liquidity						
Cash Allocation	1,631,676,848		1,226,807,945		(404,868,903)	
US Cash Equitization	151,561,646		143,517,901		(8,043,745)	
Total Liquidity	1,783,238,494	1.54%	1,370,325,847	1.23%	(412,912,648)	(0.31%)
Domestic Equity						
Active						
Ariel Capital	387,160,555		394,876,633		7,716,077	
BGI - Enhanced	773,843,911		732,068,044		(41,775,867)	
Brinson Partners	535,375,084		543,628,580		8,253,496	
Brown Capital Management	529,807,039		499,553,467		(30,253,572)	
Chicago Equity Partners	606,731,378		576,614,090		(30,117,288)	
Delaware Investment Adv	424,910,311		432,713,908		7,803,597	
Delphi Management, Inc	195,570,772		192,734,412		(2,836,360)	
Denver Investment Advisors	861,039,508		834,721,188		(26,318,319)	
DSI International Management	860,142,253		814,884,879		(45,257,373)	
First Quadrant	575,659,466		540,939,572		(34,719,894)	
Mellon Capital Management	702,890,797		664,928,829		(37,961,968)	
NCM Capital Management	799,981,012		746,655,089		(53,325,922)	
Putnam Investments	696,318,299		650,146,047		(46,172,252)	
Sasco Capital	624,879,304		614,477,711		(10,401,593)	
SSgA - Enhanced	850,539,996		805,122,418		(45,417,578)	
TCW Asset Manangement Co	765,238,350		716,492,251		(48,746,099)	
Passive						
BGI Extended Market Index	5,679,823,594		5,463,549,066		(216,274,527)	
BGI S&P 500 Index	16,956,071,681		15,960,173,708		(995,897,973)	
STRS S&P 500 Index	16,062,048,022		15,129,412,898		(932,635,124)	
Transition						
STRS Domestic	943		1,941,523		1,940,581	
Total Domestic Equity	48,888,032,274	42.15%	46,315,634,313	41.54%	(2,572,397,961)	(0.61%)
International Equity						
Active						
Bank of Ireland Asset Management	1,073,229,173		1,016,635,457		(56,593,716)	
Battery March Financial Mgmt Inc.	522,292,817		491,994,002		(30,298,815)	
Blackrock, Inc.	357,040,398		335,311,118		(21,729,280)	
Brinson Partners Non-USEQ	506,656,537		489,125,698		(17,530,839)	
Capital Guardian Trust	1,687,352,632		1,538,268,904		(149,083,728)	
Delaware Int'l Advisors Inc.	483,158,230		461,627,352		(21,530,879)	
Fidelity Management Co.	560,989,501		540,805,991		(20,183,510)	
Fiduciary Trust	849,016,276		784,815,393		(64,200,882)	
Goldman Sachs Asset Mgmt	282,875,921		456,992,688		174,116,768	
Lazard Freres	973,642,731		926,795,707		(46,847,024)	
Marvin & Palmer Assoc, Inc.	579,954,131		543,849,275		(36,104,856)	
Morgan Stanley	911,376,701		878,305,780		(33,070,921)	
Newport Pacific Mgmt	364,727,846		345,302,519		(19,425,327)	

California State Teachers' Retirement System
Monthly Investment Summary

	Market Value 08/31/2000	Market %	Market Value 09/30/2000	Market %	Market Value Difference	% Diff.
Nicholas-Applegate Capital Mgmt	647,345,612		606,478,614		(40,866,998)	
Oechsle International	1,258,766,533		1,193,688,120		(65,078,413)	
Schroder Capital	703,236,612		670,896,990		(32,339,622)	
Scudder Kemper Investments	955,322,443		890,497,868		(64,824,574)	
Passive						
BGI - Europe	8,919,357,255		8,477,971,372		(441,385,882)	
BGI - Pacific	4,220,089,500		3,978,300,925		(241,788,576)	
SSgA - Emerging Market Index	1,750,039,577		1,611,946,069		(138,093,508)	
Transition						
STRS International	177,387		25,693,020		25,515,633	
Total International Equity	27,606,647,813	23.80%	26,265,302,864	23.56%	(1,341,344,949)	(0.25%)
Fixed Income						
Corporate Bond Index	8,484,082,363		8,472,584,621		(11,497,742)	
Mortgage Backed Security Index	8,334,258,813		8,619,567,824		285,309,011	
Mortgage Loan	537,874,161		570,652,982		32,778,821	
US Treasury & Agency Index	10,865,670,973		10,508,065,976		(357,604,997)	
Total Fixed Income	28,221,886,310	24.33%	28,170,871,403	25.27%	(51,014,907)	0.93%
Real Estate						
CB Richard Ellis	1,481,890,501		1,506,799,294		24,908,793	
Clarion Partners, LLC	154,160,283		154,186,562		26,279	
Heitman Capital Management	219,091,151		258,326,956		39,235,806	
Lend Lease	1,056,390,477		1,044,422,707		(11,967,770)	
Lowe Enterprisees Inv Mgmt	131,194,832		140,511,117		9,316,285	
MIG Realty Advisors	217,875,571		218,111,707		236,136	
Sentinel Realty Advisors	17,650,977		17,680,355		29,379	
Special Situations	364,736,194		364,635,008		(101,185)	
SSR Realty Advisors	347,845,346		461,715,012		113,869,666	
Thomas Properties Group	750,001		750,001		0	
Total Real Estate	3,991,585,330	3.44%	4,167,138,719	3.74%	175,553,388	0.30%
Alternative Investments						
Limited Partnerships	5,487,355,410		5,206,102,122		(281,253,287)	
Total Alternative Investments	5,487,355,410	4.73%	5,206,102,122	4.67%	(281,253,287)	(0.06%)
Grand Total	115,978,745,631	100.00%	111,495,375,266	100.00%	(4,483,370,365)	

PLEASE NOTE:

All Figures Include Accruals
The Information contained in this report is UNAUDITED
Member Home Loan Securitization Principal Balance as of 09/30/2000 is $117,622,386
The Internally Managed Cash Collateral Portfolio is NOT included above.
The Net Asset Value as of 9/30/2000 is $2,745,575,698